

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Fred C. Fischer Library</u>	County Wayne
Audit Date September 30, 2003	Opinion Date November 26, 2003	Date Accountant Report Submitted To State: March 3, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 350 S. Main St., Suite 200	City Ann Arbor	State MI	ZIP 48104
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Fred C. Fischer Library**

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**Financial Report**  
**September 30, 2003**

# **Fred C. Fischer Library**

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**Independent Auditor's Report**

To the Tri-Community Library Committee  
Fred C. Fischer Library

We have audited the accompanying financial statements of the Fred C. Fischer Library as of September 30, 2003 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Fred C. Fischer Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fred C. Fischer Library as of September 30, 2003 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

November 26, 2003

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# Fred C. Fischer Library

## Combined Balance Sheet Governmental Fund Type - General Fund September 30, 2003

### Assets

Cash and cash equivalents (Note 2)	\$ 143,560
Accounts receivable	<u>120,631</u>
Total assets	<u><u>\$ 264,191</u></u>

### Liabilities and Fund Balance

#### Liabilities

Accounts payable	\$ 31,552
Accrued liabilities	124,570
Accrued wages payable	2,383
Deferred revenue (Note 4)	<u>105,286</u>

Total liabilities 263,791

**Fund Balance** - Unreserved and undesignated 400

Total liabilities and fund balance \$ 264,191

# Fred C. Fischer Library

## Statement of Revenue, Expenses, and Changes in Fund Balance - Budget and Actual Governmental Fund Type - General Fund Year Ended September 30, 2003

	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Member contributions (Note 4)	\$ 482,518	\$ 377,231	\$ (105,287)
Interest income	1,000	1,699	699
Federal grants	-	250	250
State aid	33,800	28,528	(5,272)
Local library fines and fees	104,950	110,061	5,111
Contributions and donations	1,350	1,369	19
Miscellaneous	6,670	6,651	(19)
Total revenue	630,288	525,789	(104,499)
<b>Expenditures</b>			
Salaries	282,705	281,290	1,415
FICA	3,800	3,508	292
Books	75,000	77,581	(2,581)
Supplies	5,900	22,371	(16,471)
Professional fees	4,150	4,150	-
Dues	700	801	(101)
Contracted services	32,600	32,615	(15)
Administration fees	50,000	30,867	19,133
Telephone	11,300	11,941	(641)
Insurance	6,580	6,512	68
Utilities	20,000	21,119	(1,119)
Repairs and maintenance	4,100	2,780	1,320
Printing and publications	9,500	11,828	(2,328)
Benefits	93,000	94,621	(1,621)
Postage	5,540	5,095	445
Computer hardware/software	15,400	8,651	6,749
Furniture and equipment	15,600	6,324	9,276
Miscellaneous	3,500	1,274	2,226
Total expenditures	639,375	623,328	16,047
<b>Excess of Expenditures Over Revenue</b>	(9,087)	(97,539)	(88,452)
<b>Fund Balance - October 1, 2002</b>	97,939	97,939	-
<b>Fund Balance - September 30, 2003</b>	<u>\$ 88,852</u>	<u>\$ 400</u>	<u>\$ (88,452)</u>

## **Note I - Summary of Significant Accounting Policies**

The Fred C. Fischer Library (the "Library") is an intergovernmental agency with the City of Belleville, Van Buren Township, and Sumpter Township. Its purpose is to provide library services to the residents of all the participating communities. Accordingly, the participating communities provide annual funding for its operations.

Prior to March 1999, the Library's accounting records were maintained by Wayne County. After March 1999, the three communities became responsible for the financial management of the Library, thus creating the intergovernmental agency. According to the Tri-Community Agreement, the Library is considered a branch of the Wayne County Library.

The accounting policies of the Library conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

### **Reporting Entity**

The Library is governed by a three-member board that consists of one representative from each community as appointed by the respective municipalities. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. There are no component units to be included in the Library's financial report.

### **Fund Accounting**

#### **Governmental Fund**

**General Fund** - The General Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. General Fund activities are financed by revenue from contributions of the participating communities and other sources.

### **Basis of Accounting**

The modified accrual basis of accounting is utilized. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.
- b. Normally, expenditures are not divided between years by the recording of prepaid expenses.

### Note 1 - Summary of Significant Accounting Policies (Continued)

- c. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.

**Cash Equivalents** - The Library considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Fixed Assets** - Fixed assets of the Library, including the building the Library currently occupies, are owned by the participating communities.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

### Note 2 - Deposits

The Library's deposits and investments included on the balance sheet under the cash and cash equivalents classification are composed of the following:

Bank deposits (checking accounts and savings accounts)	\$ 1,062
Sweep investment account in bank investment pools	<u>142,498</u>
Total	<u>\$ 143,560</u>

#### Deposits

The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,062, all of which was covered by federal depository insurance. The Library's cash deposits are included with the City of Belleville's bank accounts.

#### Investments

The Library's investments are included with the City of Belleville's investments. The City of Belleville is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.



### **Note 2 - Deposits (Continued)**

The Library's investments at September 30, 2003 consist solely of bank investment pools in the amount of \$142,498. These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

### **Note 3 - Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library is covered under the City of Belleville's commercial insurance for medical benefits, workers' compensation, and general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 4 - Member Contributions**

Contributions made to the Library are as follows:

- \$377,231 was contributed in total to the Fred C. Fischer Library by the participating communities for the year ended September 30, 2003. Contributions were collected on a quarterly basis by the City of Belleville on behalf of the Library.

# Fred C. Fischer Library

## Notes to Financial Statements September 30, 2003

### Note 4 - Member Contributions (Contributions)

- The following is an analysis of member contributions for the year ended September 30, 2003:

	Quarterly Payment per the 2002-2003 Budget	Total Payments Received During Fiscal Year Ended September 30, 2003
Revenue contributed by member community:		
City of Belleville	\$ 15,344	\$ 61,374
Sumpter Township	30,000	90,000
Van Buren Township	75,286	225,857
Total	<u>\$ 120,630</u>	<u>\$ 377,231</u>

The Library had not received Sumpter Township's and Van Buren Township's fourth quarterly contribution within 60 days of September 30, 2003. Accordingly, deferred revenue in the amount of \$105,286 was recorded at September 30, 2003.

The Library uses a support formula to determine the annual amount that each of the participating communities will contribute to the Library. This formula is determined based on three equally weighted factors: usage, population, and tax base. This percentage is multiplied by the total budgeted amount for local payments in order to determine the amount to be paid by each community.

### Note 5 - Budget Information

The annual budget is prepared by the Library director, submitted to the Tri-Community Library Committee for their approval, and then submitted to each of the participating communities' council or board for adoption; subsequent amendments are submitted by the Tri-Community Library Committee to each of the participating communities' council or board for approval. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at September 30, 2003 has not been determined. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

### **Note 5 - Budget Information (Continued)**

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the participating communities' board or council and the Tri-Community Library Committee is included in the financial statements. This comparison includes expenditure budget overruns.

### **Note 6 - Upcoming Reporting Change**

For the year beginning October 1, 2003, the Library plans to adopt GASB Statement Number 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total on the full accrual basis of accounting. Information is not available to present pro forma data that would show the effect of this future change.

November 26, 2003

Tri-Community Library Committee Members  
Fred C. Fischer Library  
6 Main Street  
Belleville, MI 48111

Dear Members:

We have recently completed our audit of the financial statements of the Fred C. Fischer Library for the year ended September 30, 2003. In addition to the audit report, we offer the following comments and recommendations for your consideration.

### **Account Reconciliations**

In planning and performing our audit of the Library's financial statements each year, we consider the Library's internal control structure in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements. The consideration we give to the internal control structure is not sufficient for us to provide any form of assurance. However, our review of the Library's internal control structure and operation leads us to an assessment that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants.

Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with the Library's management assertions inherent in the financial statements. We consider the following deficiency in the design and operation of the internal control structure to be a reportable condition.

The Library failed to prepare bank reconciliations on a timely basis. With recent transitions in the City of Belleville's accounting department, bank reconciliations were not prepared for a six-to seven-month period. We recommend reconciling the Library's cash accounts monthly by an employee independent of the cash collection, recording, and processing functions.

### **Member Quarterly Contributions**

During our audit, we noted that the invoices for the fourth quarter contributions were not issued until one month after the Library's fiscal year end. The delinquent issuing of these invoices resulted in the Library not receiving budgeted revenues timely, which led to a significant decrease in fund balance compared to budget. We recommend that an oversight process be developed so that the invoices are always issued on a timely basis.

## ACH Arrangements

Recently, Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

The Tri-Community Library Committee should consider adopting a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for approving payment, accounting, reporting, and complying with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
  - < Describe the goods or services purchased
  - < The cost
  - < Date of payment
  - < The department benefiting from the purchase.
- A system of internal controls to monitor the use of ACH transactions
- The approval of ACH invoices before payment

We would like to thank the Library staff again this year for their cooperation and assistance provided during the audit. If you have any questions or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

**Plante & Moran, PLLC**



Michael J. Swartz



Shane C. Ferguson